The Real Estate ANALYST

FEBRUARY 26
1940

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies....Surveys....Forecasts

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VOLUME IX

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

FHA PROJECT TO BE FORECLOSED FEBRUARY 26

MANHASSETT VILLAGE is a large scale housing project comprising 354 apartment units built by private enterprise in a small municipality adjoining the City of St. Louis, Mo. The project was financed by private capital and a loan of $1,600,000 made by the New York Life Insurance Company and insured by the Federal Housing Administration under Title II of the Housing Act. The corporation which promoted this undertaking had as its principal stockholders two women secretaries of the architect and the contractor who designed and built the project.

The appraised value and the financial set-up which formed the basis of the mortgage loan and received the approval of FHA appraisers as complying with government standards and the requirements of the Housing Act are as follows:

APPRAISED VALUE		
Value of Land	171,000	
Value of Improvements Incl. Architect's Fees, Etc.	1,845,000	
TOTAL VALUE		2,016,000
AVAILABLE FUNDS		
Original Cost of Land	44,000	
Improvement to Land, Utilities, Walks, Drives, Etc.	50,000	
Promoters' Write-Up of Land Value	77,000	
TOTAL LAND VALUE	171,000	
Cash Equivalent--Stock Rec'd by Architect and Constractor in lieu of Cash	245,000	
Mortgage Loan	1,600,000	
TOTAL FUNDS AVAILABLE		2,016,000

The project is located in the City of Richmond Heights in St. Louis County, a suburb of about 12,000 population, adjoining St. Louis on the west, dependent upon St. Louis economically, and an integral part of Greater St. Louis.

Situated approximately eight miles west of the downtown district of St. Louis, with splendid boulevards to give it good accessibility to all parts of St. Louis and St. Louis County, the property is considered in a good but premature locality for a residential development. Since it is

(continued on the following page)

in an undeveloped section of Richmond Heights mass transportation is not now available to the project; the closest bus and street car lines are about one and a quarter miles distant, and until further development in this general locality brings other transportation, the owners of the project operate a private bus line to public street cars and busses and also to a public school located about three quarters of a mile from the project. This private bus line operates on a half hour schedule and offers free transportation to the occupants of Manhassett Village.

The site, containing 21 acres, is located on high ground in a beautifully wooded section and is well suited in size and topography to residential development, with considerable protection from any future adverse environment. if such should occur. The site has been improved with walks and drives, lawns and some shrubs, in addition to essential utilities, such as sewers, water, gas, electricity and telephones. A playground is laid out on the site for use of children living in the project.

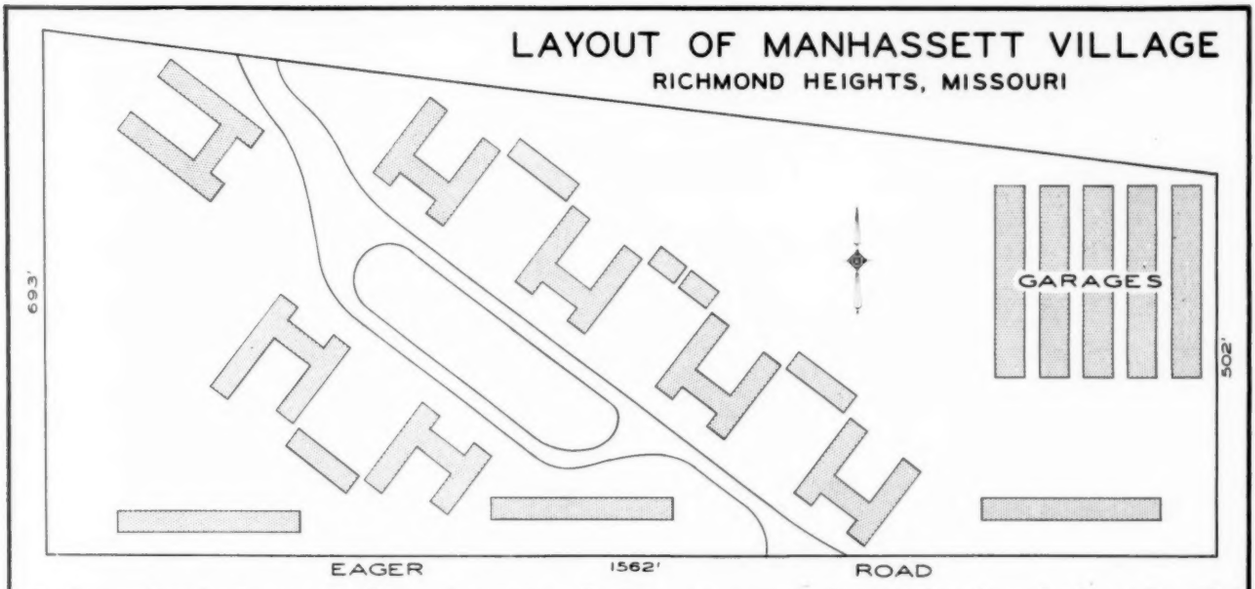
The small sketch on page 39 shows the layout of the site and the principal improvements of Manhassett Village. Seven three-story walk-up apartment buildings contain 354 apartment units, and five buildings contain 220 separate unheated garages.

Of the 354 units, 60 contain three rooms and bath each, and 294 contain four rooms and bath each. About half of the apartments of the 354 have cross ventilation. Ample courts give all units privacy and good exposure. All rooms are of adequate size and all units are designed with adequate wall space and closets. There is nothing pretentious in the design, layout, construction, equipment or decoration of the apartments. Construction is considered average and of the type commensurate with its rental class. Equipment furnished tenants includes gas stove, mechanical refrigeration, laundry and incinerator facilities. Due to the failure of the original design to comply with State laws, it became necessary for the owners to provide 62 fire escapes after the project was completed, at an additional cost.

The great distance between the group of garage buildings is of considerable inconvenience for tenants, especially during bad weather. This inconvenience and the lack of near-by transportation are adverse influences which will be reflected in a low-rent level compared with apartments without these inconveniences.

Construction on this project was started soon after the contract was let on February 27, 1938. A year later the project was completed, and about 60 units were rented. On February 26, 1940, there are 113 apartments rented and 241 vacant. Of the units now rented, 52 out of a total of 60 are of the three room type, and only 61 out of a total of 294 are of the four room type.

The monthly rents now being asked are $45.00 for the three room units, $49.00 for the four room units without cross ventilation and $51.00 for the four room units with cross ventilation, although some units are now rented at less than these rents, due to concessions. These rents in-



clude unheated space for storage of one car, apartment heat, hot and cold water, janitor service, locker space, and the use of laundry space and equipment; the tenant, however, pays for all electricity and gas consumed in both the apartment and laundry.

In the appraisal of this project, which is in direct competition with apartments built by private enterprise for the sole purpose of their worth as investments, its worth as an investment should be determined upon the basis of a private enterprise project, without any consideration being given either the powerful influence of the government or the comparatively slight interest and promotional nature of its ownership.

It is doubtful if the present rent schedule represents the proper measure of the desirability of these apartments in comparison with competing apartments. This would be indicated by the fact that after the year's renting effort, Manhassett Village has an average occupancy of only 32%, compared with an average occupancy of apartments in St. Louis of approximately 93%. This is especially true of the four room units with a present average occupancy of less than 21%. These conditions strongly indicate a lack of need for these apartment dwellings in the St. Louis area. The fact that the government has made possible the dumping of large blocks of dwellings on a market in which a surplus already existed, instead of gradually adding to the surplus as the market would warrant, would also indicate a very complete lack of understanding of the local situation.

In finding the value of the project as an investment the net income level is estimated from gross revenue and expenses which reasonably can be expected during an estimated economic life of forty years. Gross revenue fluctuates widely during active and inactive periods due to changes in rent levels and in occupancy. A drop of 30% in rents and 20% in occupancy would cause a decrease in gross revenue of 44%. From 1925 to 1932 the average loss in gross revenue of apartment properties was approximately 60% in the St. Louis area. The following calculations give the basis of establishing the equivalent net income level from which the

(continued on the following page)

present worth (investment value) can be established.

60 Apartments @ $540, Present Rent	$ 32,400	
147 Apartments @ 584, Present Rent	85,848	
147 Apartments @ 612, Present Rent	90,963	
Present 100% Gross Revenue	209,211	
Present Estimated at 80% Future Level	261,510	
Estimated Vacancy	26,150	
Effective Gross Revenue		$235,360

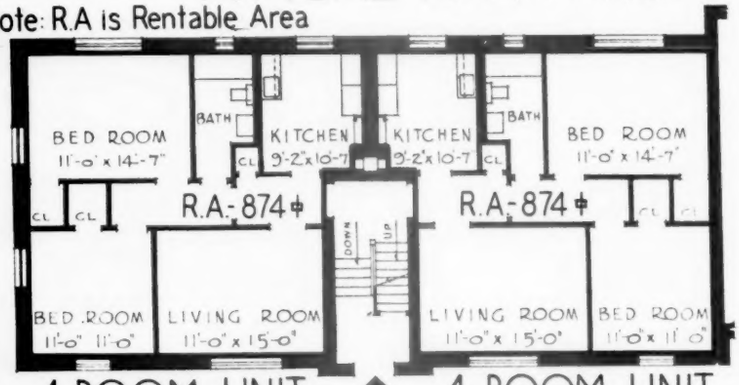
Janitor Expense	$10,000	Property Taxes	$29,000	
Utility Expense	4,000	Insurance	6,000	
Heating Expense	22,000	Fees	100	
Management Expense	12,000			
Operating Expense	48,000	Fixed Expense	35,435	
Maintenance Grounds	$ 2,500	Chauffeurs	$ 2,400	
Maintenance Bldg. Exterior	7,020	Gas, Oil, Etc.	365	
Maintenance Bldg. Interior	15,000	Repairs	480	
Maintenance Equipment	5,000	Depreciation	400	
Maintenance & Repair Expense	29,520	Transp. Exp.	3,645	
Total Expense				$116,600
Net Income Level				$118,760

Est. Net Income applicable to Land	$ 11,970	
Est. Net Income applicable to Improvements	106,790	
Capitalization of Net Income--		
Present Worth of Land-- $11,970 - .07		171,000
Present Worth of Improvements-- $106,790 x 11.925		1,272,000
Present Worth of Project		$1,443,000
Estimated Loss in Income until effective gross income reaches the estimated future level, say in 3 years-- 1st yr.-119,000; 2nd yr.-75,000; 3d yr.-26,000		220,000
APPRAISED PRESENT WORTH AS AN INVESTMENT		$1,223,000

(continued on page 51)

TYPICAL APARTMENT LAYOUTS

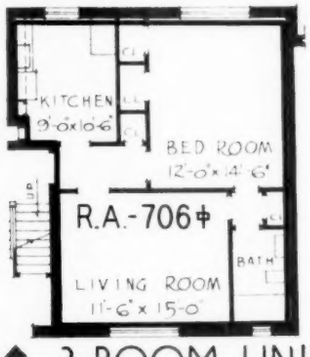
Note: R.A is Rentable Area



4 ROOM UNIT
CROSS VENTILATION
RENT $51.00 PER. MO.

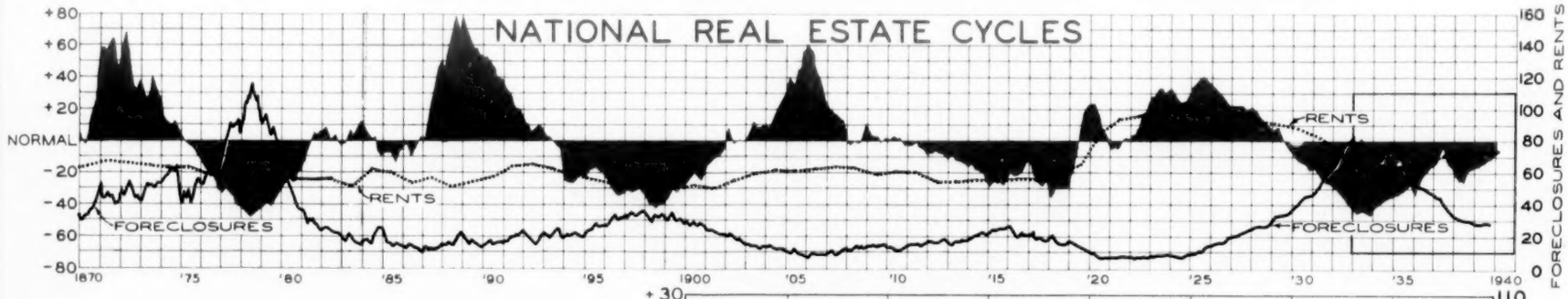
ENTRY

4 ROOM UNIT
NO CROSS VENTILATION
RENT $49.00 PER. MO.



ENTRY

3 ROOM UNIT
NO CROSS VENTILATION
RENT $45.00 PER. MO.

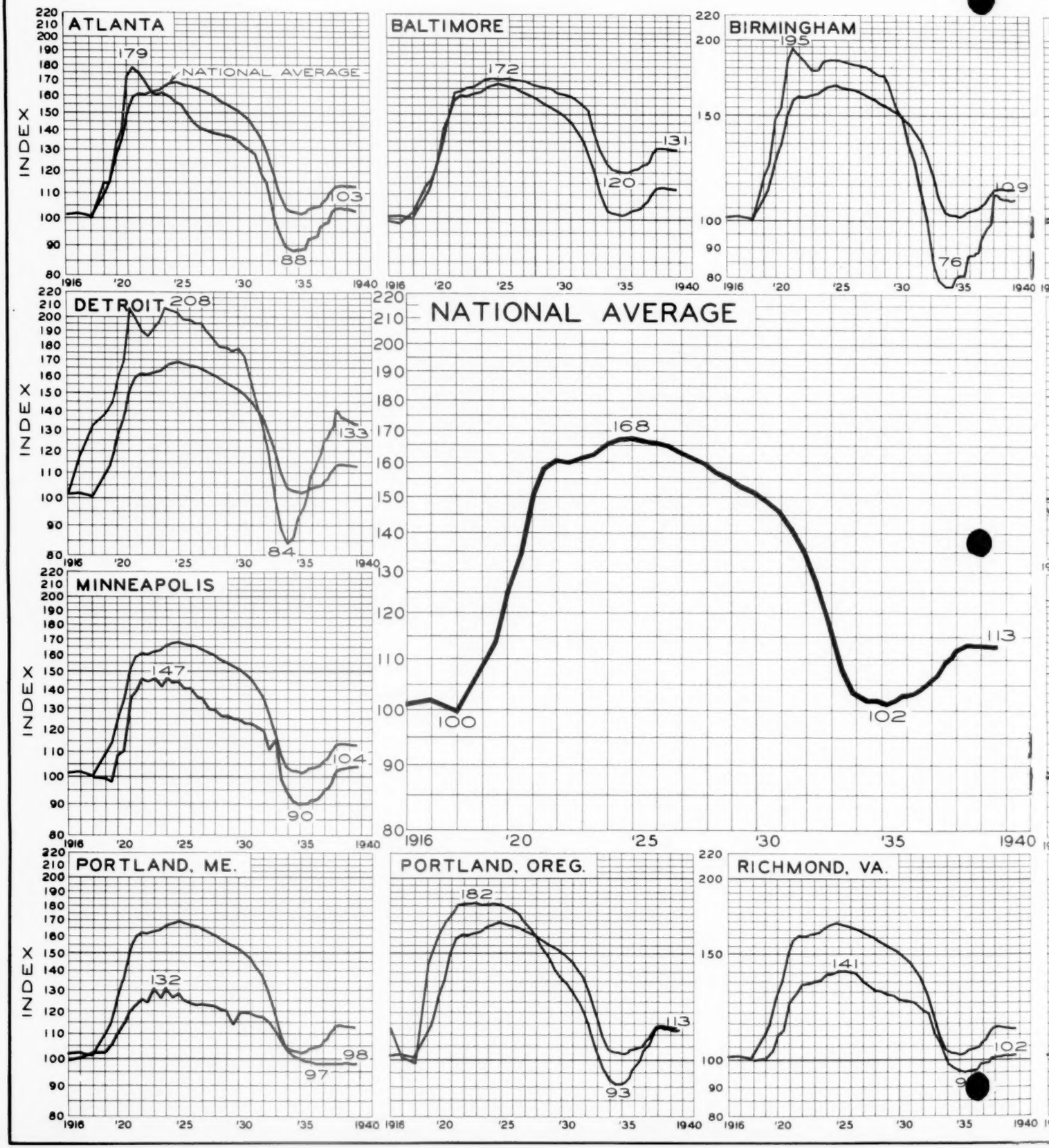


THE chart above shows the periods of activity and inactivity in real estate from 1870 to the present. The black areas above the normal line represent the booms in which real estate was quite liquid; the black areas below the line, the depressions when real estate was frozen. The chart to the right shows the last few years in an enlarged fashion.

It will be noticed that real estate activity has been behaving in a fairly satisfactory fashion during the past year and a half, advancing from about 25% below normal to 8% below in January.

Residential rents have shown very little change on our index during the last two years. Foreclosures have continued downward at a rather constant rate since 1935.

FLUCTUATIONS OF RES



RESIDENTIAL RENTS IN THIRTY-TWO CITIES

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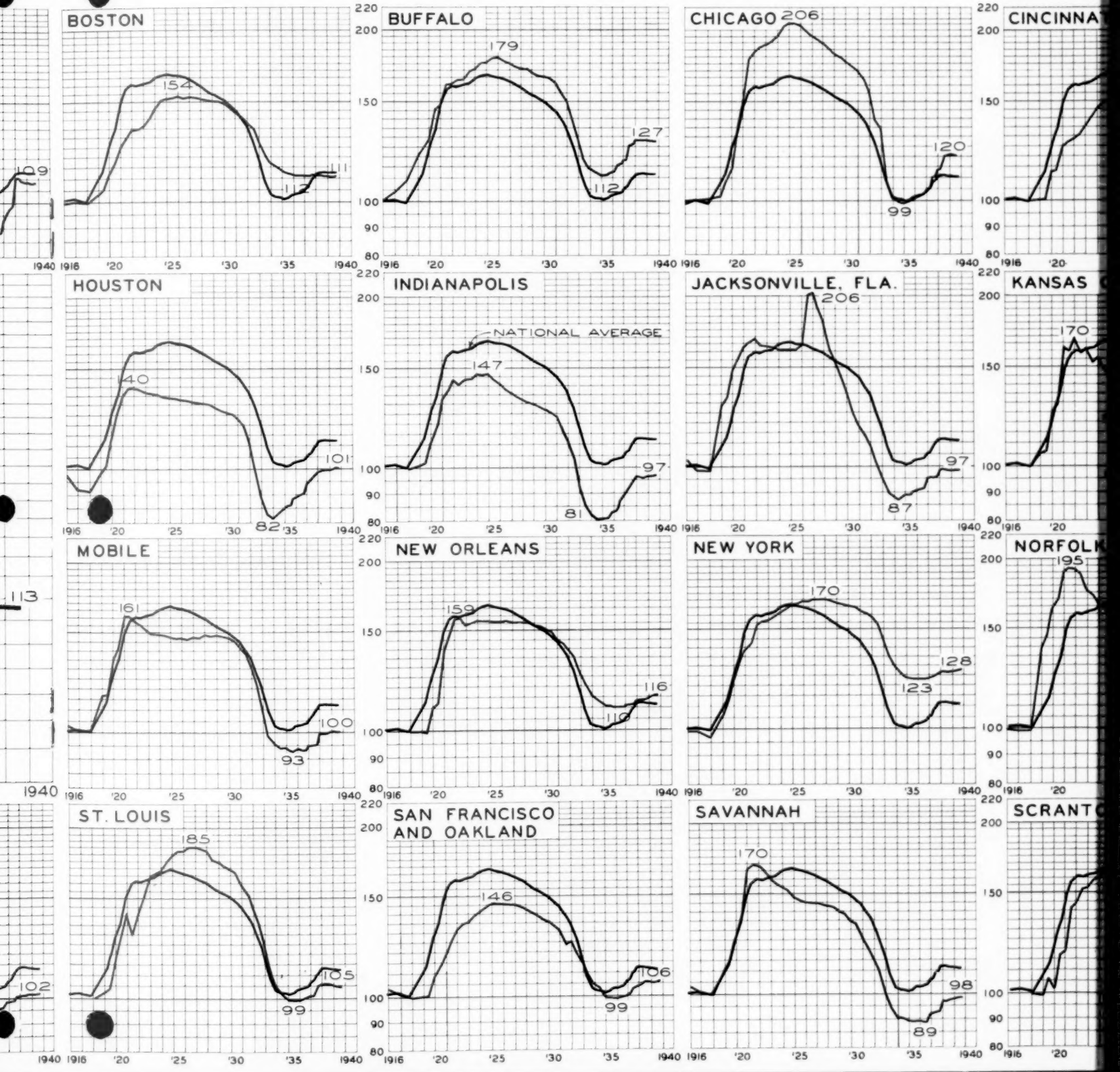
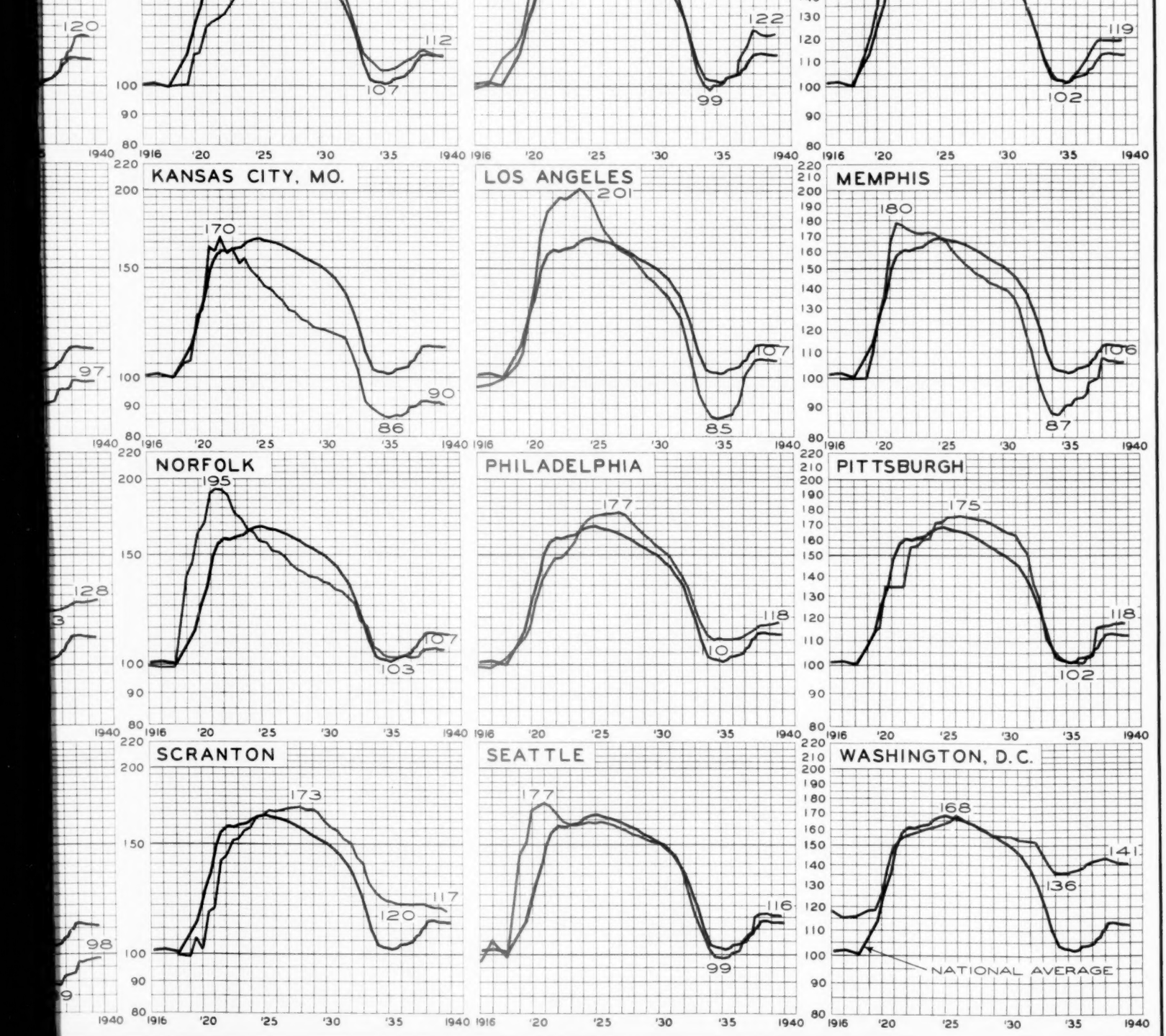


S —— 1916 - TO DATE

UIS



THE chart to the left shows the fluctuation of residential rents in thirty-two typical cities of the United States from 1916 to the present. The large chart, with the curve in red, shows the national average, and this national average is repeated in red on each city chart for comparative purposes.

These charts are based on rents paid by families of wage earners and lower salary groups, since this information has been periodically determined by investigation of the Bureau of Labor Statistics. We have charted the material here, using 1917 as 100 on our index except in those cities where rent increases had started prior to that date. In these cities the charts were drawn on a base which would make them more nearly comparable with the others. This, for instance, was particularly true of Washington, D.C. where in 1916, 1917, and 1918 a tremendous amount of war activity on the part of the government resulted in a housing shortage with high rents, while in other parts of the United States rents were relatively low.

It will be noticed that rent levels in various cities were quite different during the last boom. In those cities where rapid growth brought about a marked shortage of housing accommodations, rents rose farther than they did in those cities having little increase. Theoretically a city losing population at a rate sufficient to offset demolitions and obsolescence, viz., one in which the total supply of acceptable accommodations remained slightly in excess of the need without new building taking place, would have a rent level that would not increase even though the cost of new construction doubled. The increased cost of construction increases rent levels ONLY when new building is necessary to satisfy an effective demand.

RESIDENTIAL RENTS OF OCCUPIED DWELLINGS

BASED ON FIGURES COMPILED BY BUREAU OF LABOR STATISTICS

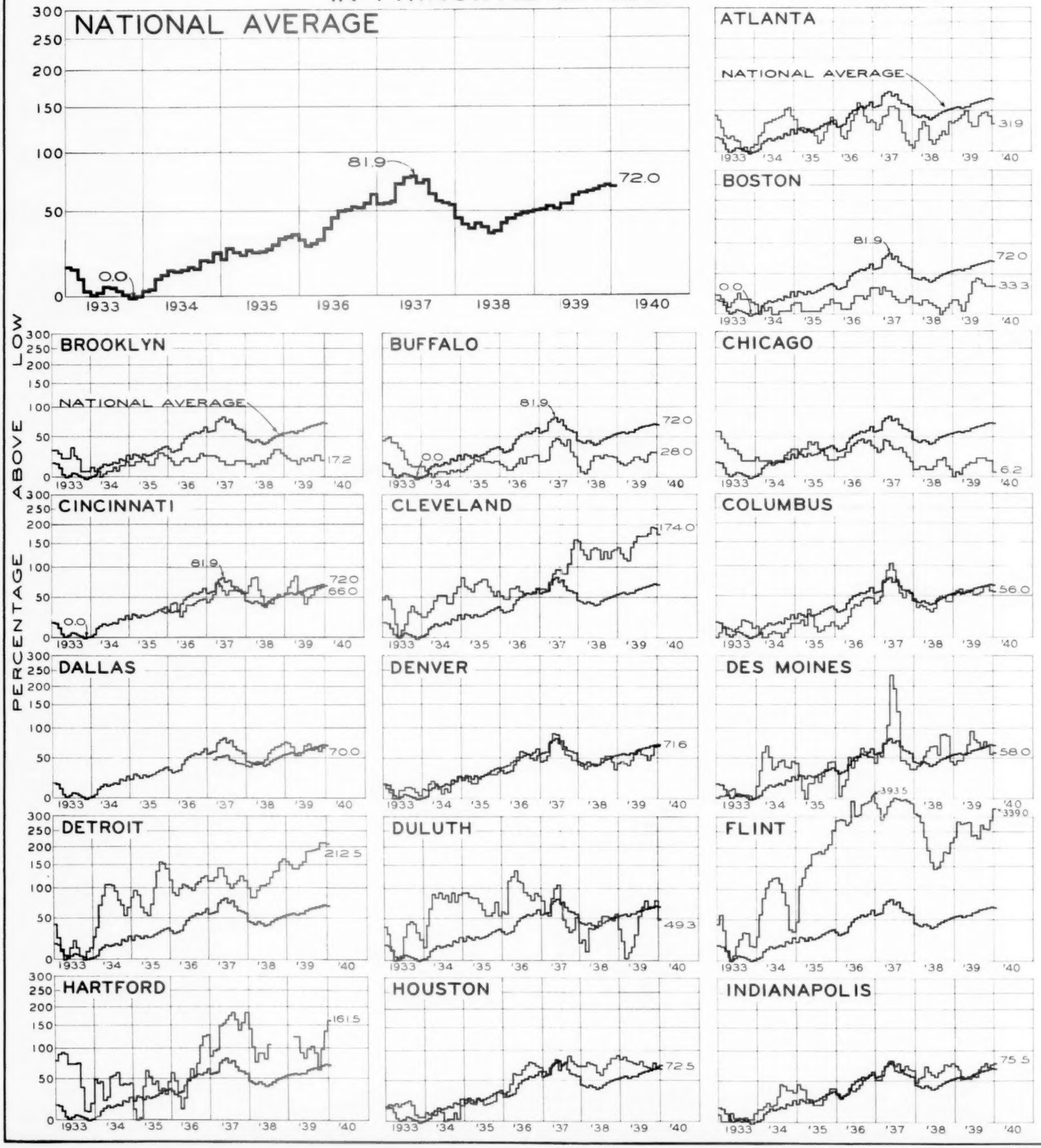
The index numbers below, prepared by the United States Bureau of Labor Statistics, show the fluctuations in rents for various types of occupied residential properties in thirty-three cities. The average for each type of property in each city in 1918 is considered as 100. The relative importance of each type of dwelling in each city is shown by the percentage figure in the first column.

City	% of All Units	1939 June	1939 Sept.	1939 Dec.
Atlanta				
1-family	45	109	109	109
2-family	27	111	111	111
4-family	8	109	109	110
Apartments	15	115	114	114
Other (1)	5	109	109	109
Baltimore				
1-family	80	107	107	107
2-family	8	107	107	107
Apartments	9	106	106	104
Birmingham				
1-family	51	129	129	129
2-family	22	139	139	140
4-family	11	131	131	130
Apartments	16	120	119	119
Boston				
1-family	4	101	101	101
2-family	18	100	100	100
3-family	27	100	100	100
4-family and apts.	39	99	99	99
Buffalo				
1-family	28	111	111	111
2-family	47	109	109	109
Apartments	11	108	108	107
Other	14	115	116	115
Chicago				
1-family	8	119	119	119
2-family	23	120	121	121
3-family	10	116	116	117
4-family and apts.	43	118	118	118
Other	16	117	117	117
Cincinnati				
1-family	28	107	107	107
2-family	20	106	106	106
4-family	15	102	101	101
Apartments	32	103	103	103
Cleveland				
1-family	21	115	115	115
2-family	38	119	119	120
4-family	4	117	116	116
Apartments	26	116	116	116
Other	11	118	119	119
Denver				
1-family	50	114	114	114
2-family	15	115	115	115
Apartments	25	112	111	112
Terraces	10	119	119	119
Detroit				
1-family	24	126	126	126
2-family	20	127	127	127
Apartments	51	124	124	124
Houston				
1-family	75	110	110	110
2-family	13	109	108	108
4-family and apts.	12	108	107	106
Indianapolis				
1-family	60	116	117	118
2- and 4-family	26	123	124	124
Apartments	10	113	113	113
Other	4	115	115	115
Jacksonville				
1-family	55	109	109	110
2-family	25	106	106	108
4-family	8	107	106	106
Apartments	8	102	102	101
Kansas City				
1-family	32	105	105	104
2-family	9	103	103	103
4-family	17	107	106	106
Apartments	42	107	107	106
Los Angeles				
1-family	60	115	115	114
2-family	13	113	112	112
4-family	17	114	114	113
Apartments	7	109	108	108
Bungalow Courts	3	110	109	110
Manchester, N. H.				
1-family				100
2-family				101
3-family				103
4-family				102
Apartments				103
Memphis				
1-family	72	110	110	110
2-family	10	113	114	114
4-family	9	116	116	115
Apartments	9	113	112	112
Minneapolis				
1-family	25	113	113	113
2-family	28	114	114	115
4-family	10	114	114	113
Apartments	37	115	115	115
Mobile				
1-family	88	107	108	109
Other (2)	12	105	104	106
New Orleans				
1-family	24	103	104	104
2-family	68	103	103	104
4-family and apts.	5	103	102	102
New York City				
1-family	12	102	102	102
2-family	11	104	104	104
3- and 4-family	5	105	105	105
Apartments	63	105	105	105
Other	9	104	104	104
Norfolk				
1-family	36	101	101	101
2-family	23	103	103	102
4-family	10	106	108	109
Apartments	29	104	104	104
Philadelphia				
1-family	62	105	106	106
2-,3-, and 4-family	14	106	106	106
Apartments	15	104	104	104
Other	9	105	105	105
Pittsburgh				
1-family	40	111	111	111
2-family	25	112	112	112
3- and 4-family	8	110	110	110
Apartments	12	110	109	109
Other (3)	15	112	112	112
Portland, Me.				
1-family	15	101	102	102
2-family	32	99	99	99
3-family	19	99	99	99
4-family	7	99	99	99
Apartments	27	101	101	101
Portland, Oreg.				
1-family	75	120	120	119
Apartments	18	122	122	122
Other (4)	7	119	119	121
Richmond				
1-family	43	105	105	105
2-family	29	106	106	105
4-family	8	114	114	114
Apartments	14	108	108	108
Other (5)	6	106	105	105
Saint Louis				
1-family	33	102	101	101
2-family	32	102	102	102
4-family	17	104	103	103
Apartments	13	100	100	100
Other (1)	5	103	102	102
San Francisco				
1-family	30	105	105	105
2-family	12	105	104	105
3- and 4-family	10	105	105	105
Apartments	46	104	104	105
(Oakland) (6)				
All types combined	100	108	108	109
Savannah				
1-family	35	108	107	107
2-family	37	109	109	109
3- and 4-family	16	105	105	106
Apartments	9	110	110	110
Scranton				
1-family	24	96	96	96
2-family	37	97	97	97
3- and 4-family	15	99	99	99
Apartments	17	99	98	98
Seattle				
1-family	60	116	116	116
2-family	5	112	113	114
Apartments	35	118	117	117
Washington, D. C.				
1-family	24	102	102	102
2-family	9	101	101	101
3- and 4-family	5	103	103	103
Apartments	54	101	101	101
Other	8	101	101	101
National Average				
1-family		108.2	108.5	109.0
Apartments		108.0	108.5	107.0

(1) Predominantly three-family dwellings.
(2) Two- and four-family dwellings and apartments.
(3) Includes 9.5 per cent dwelling units located in business properties and 5.5 per cent unclassifiable units.
(4) Two- and four-family dwellings.
(5) Includes three-family dwellings.
(6) Sixty-eight per cent one-family dwellings.

THESE FIGURES ARE CHARTED ON PAGES 48 & 49

REAL ESTATE TRANSFERS
IN PRINCIPAL CITIES



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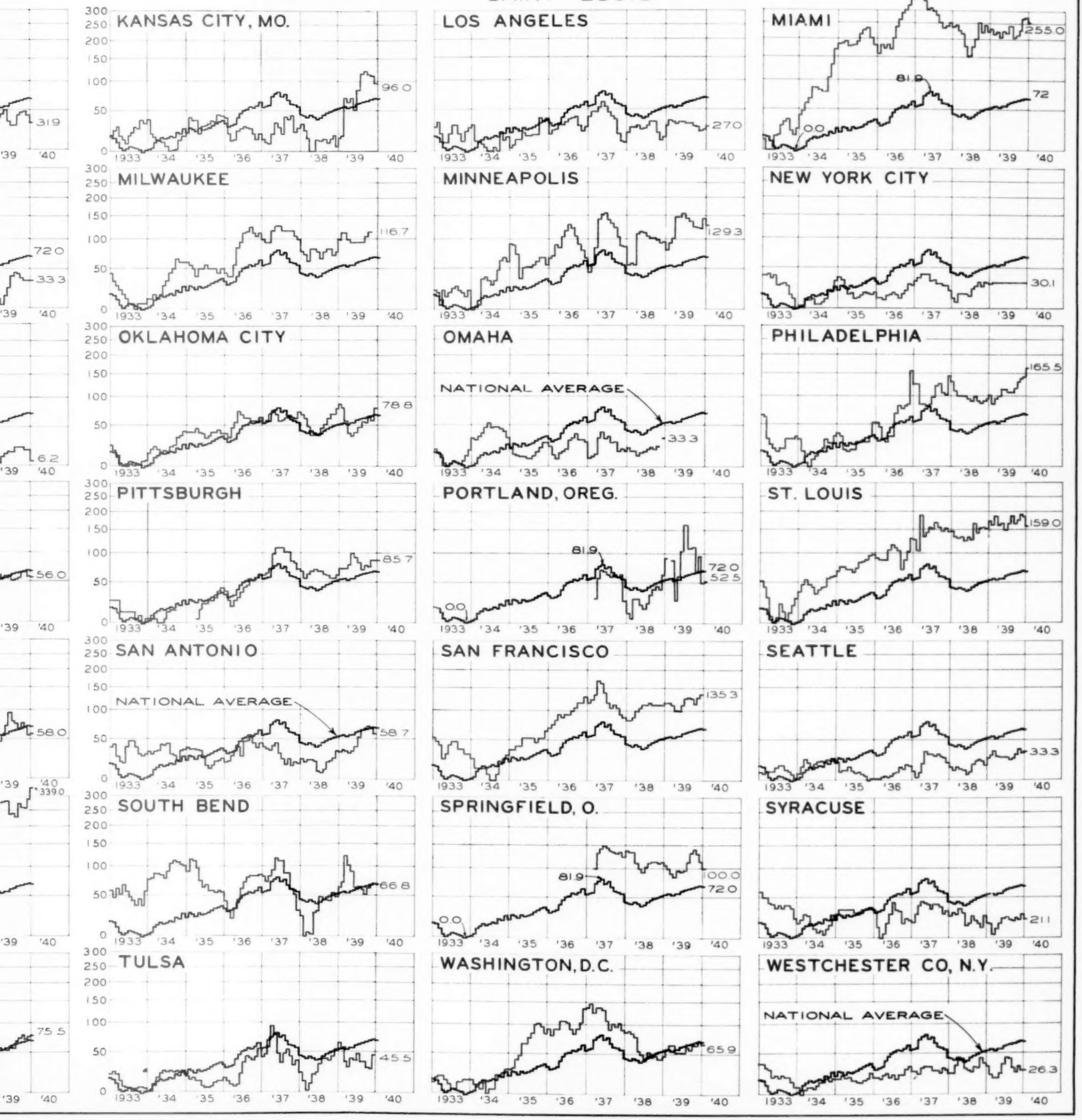
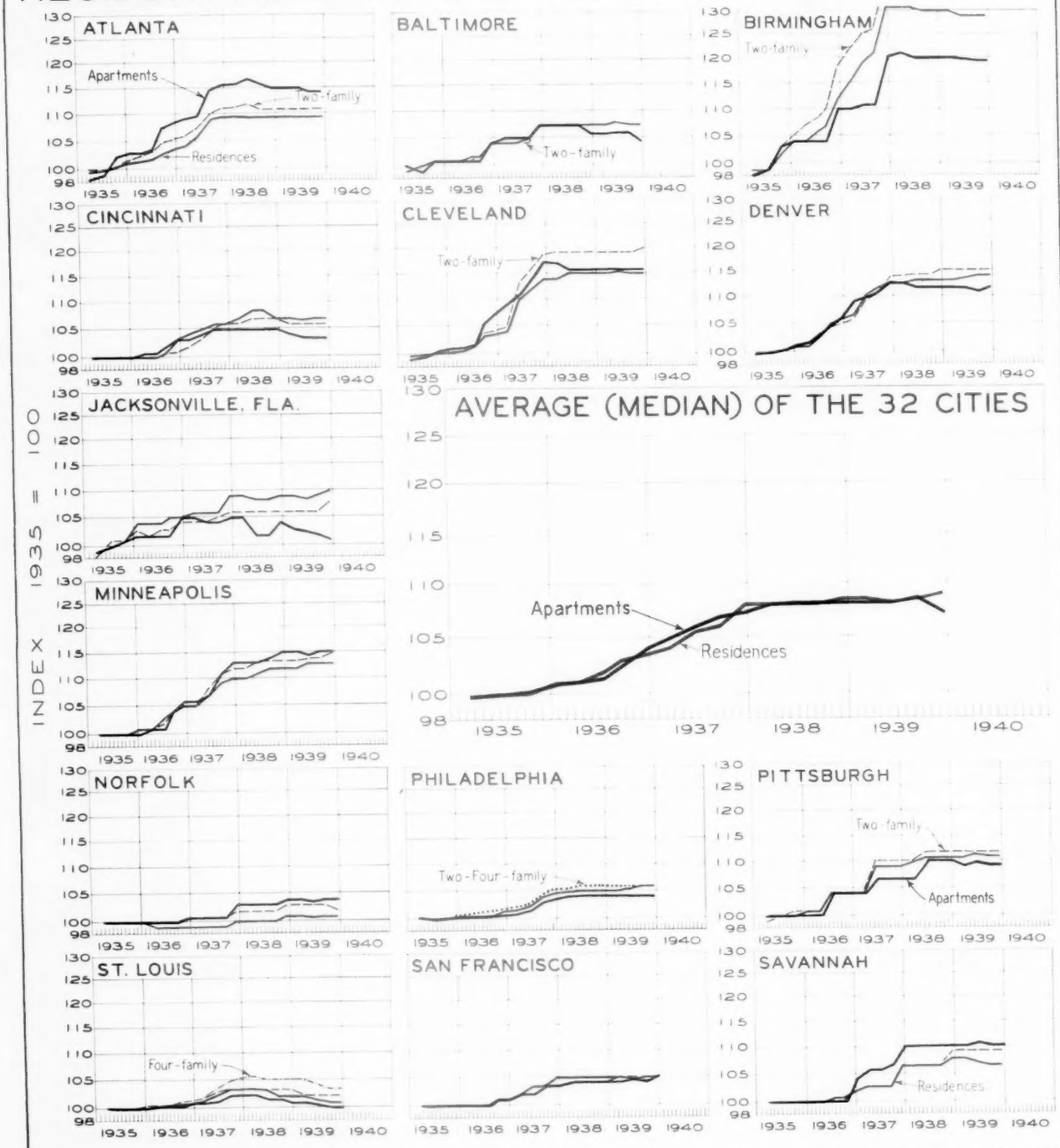
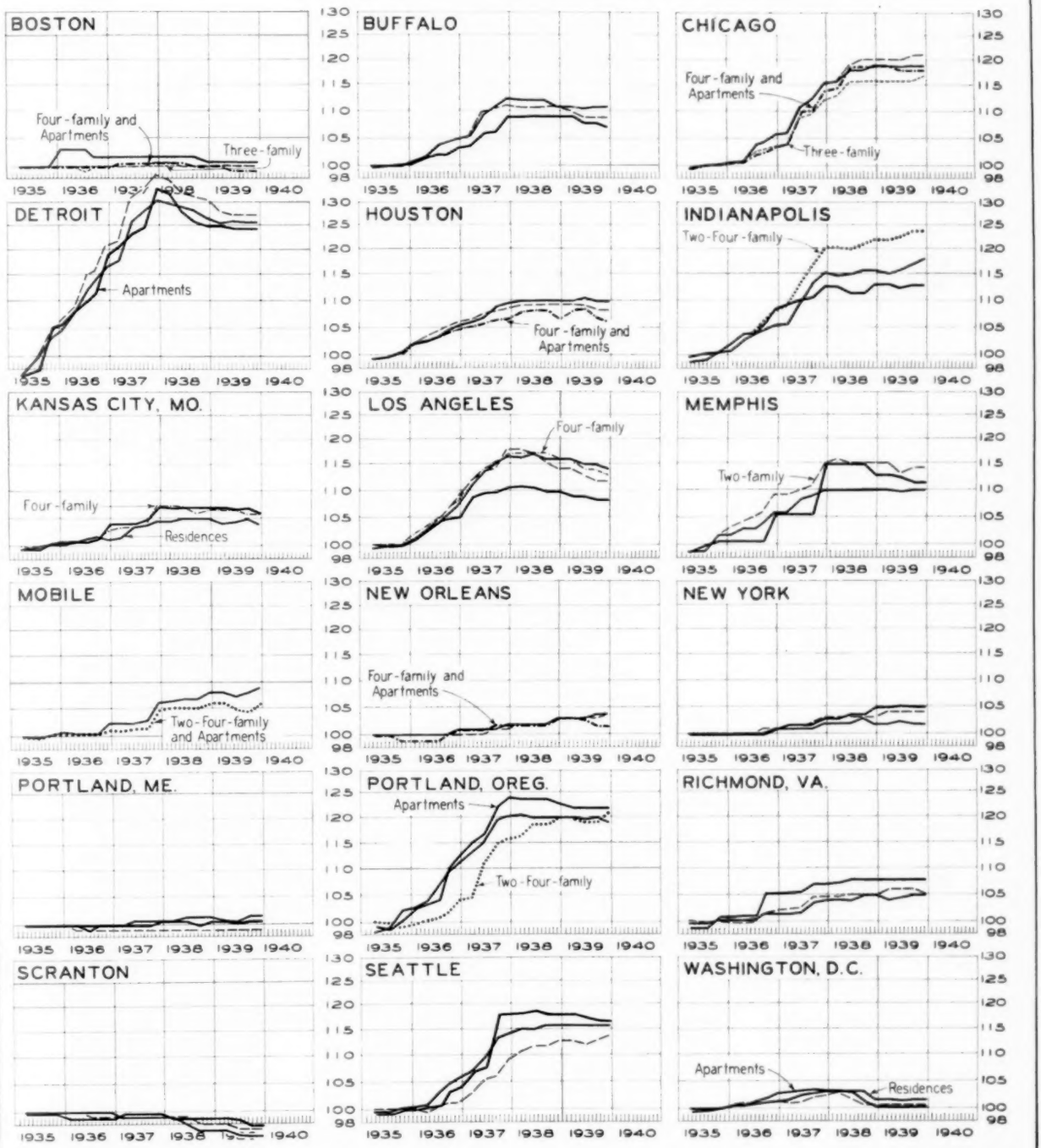


RESIDENTIAL RENTS OF OCCUPIED DWELLINGS



THE charts above showing residential rents of occupied dwellings in 32 cities are not to be confused with the rent indexes charted on pages 42, 43, and 44. The latter, showing rents from 1916 to the present, are based entirely on units rented by wage earners and the lower salary groups. The above charts attempt to cross section the various cities, covering all types of units. They are based on special studies made by the Bureau of Labor Statistics which are brought up to date each quarter. The figures are not available, however, prior to 1935. Data from which the last few periods are charted are shown at the bottom of page 45.

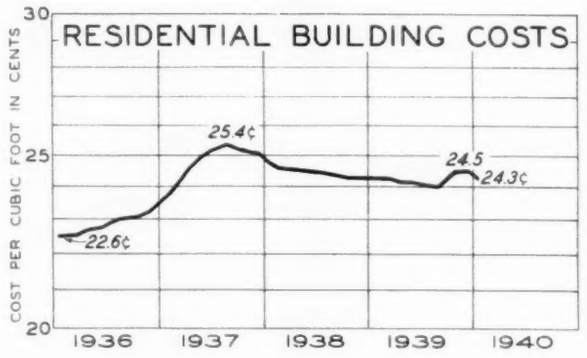
BASED ON FIGURES COMPILED BY
BUREAU OF LABOR STATISTICS



It will be noticed that the average of rents in the 32 cities showed a very slight upward movement in residences in the last half of 1939, but a fairly pronounced drop in apartment rents. In 17 cities single dwelling rents are at a recovery high. This was true of apartment rents in only 9 of the 32 cities.

In our opinion the reason for the poor behavior of apartment rents is the amount of apartment building by the U.S. Housing Authority, and of ill advised rental projects financed with FHA insured loans.

THE chart to the right shows the fluctuations in the average cost per cubic foot of building the standard residential building in 64 cities.



It will be noticed that costs rose in the fall; then showed no change, followed by a drop of one fifth of a cent, or 0.8% in January. In view of the fact that the campaign of the Department of Justice to lower costs has now been in full swing for some time, we think it a sign of great strength that building material prices have not shown a more radical drop. We can still remember some of the statements of a year ago, that it might be possible to bring down costs by as much as 26%. The slight drop in building costs in January is less than the drop in many types of commodity prices and is probably due almost entirely to the lower costs of various basic raw materials. So far the Department of Justice has halted more building by holding out hopes of lower costs than can be stimulated later by reductions actually secured. We believe the basic cost cycle is up; by tremendous effort it might be held at its present level for six months. We doubt if rises can be held off past next fall.

THE REAL ESTATE ANALYST INDEX OF RESIDENTIAL RENTS

THE table below shows residential rent figures. This is the revised index of residential rents which appeared in the Real Estate Analyst for the first time in the February, 1938, issue. All rents are expressed in dollars per month per room. This makes possible a comparison of rent levels between different cities, and in the same city between heated and unheated units. The twenty-six cities selected are typical cities scattered from coast to coast. The method of computing this index is described on page 889 in the February, 1938, Real Estate Analyst.

	1939												1940			
	July		August		September		October		November		December		January		February	
	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.
National Index	$8.50	$11.90	$8.54	$11.92	$8.56	$11.94	$8.57	$11.90	$8.48	$11.90	$8.36	$11.87	$8.35	$11.87	$8.34	$11.82
Atlanta	7.73	10.70	7.80	10.76	7.91	10.78	7.92	10.76	7.92	10.75	7.91	10.76	7.96	10.74	7.91	10.80
Baltimore	7.08	10.52	7.26	10.61	7.39	10.59	7.30	10.50	7.21	10.52	7.08	10.48	6.96	10.42	6.86	10.36
Birmingham	6.25	9.88	6.23	9.86	6.25	9.89	6.26	9.86	6.28	9.85	6.25	9.85	6.23	9.85	6.25	9.85
Boston	8.15	14.82	8.23	15.10	8.25	15.27	8.25	15.30	8.25	15.22	8.20	15.10	8.04	15.17	8.03	15.05
Chicago	10.50	12.70	10.70	12.71	10.64	12.63	10.60	12.61	10.42	12.60	10.26	12.53	10.27	12.52	10.63	12.53
Cincinnati	10.14	12.89	10.12	12.85	10.10	12.73	9.98	12.69	9.85	12.67	9.70	12.59	9.65	12.70	9.70	12.70
Cleveland	9.77	12.70	9.85	12.68	9.95	12.60	9.94	12.67	9.80	12.70	9.59	12.82	9.54	12.83	9.51	12.79
Columbus	7.18	11.10	7.16	11.07	7.14	11.03	7.14	11.10	7.03	11.10	6.91	11.10	6.85	11.11	6.85	11.04
Denver	8.02	13.10	8.05	13.12	8.07	13.13	8.02	13.10	7.92	13.04	7.82	13.08	7.80	13.10	7.70	13.08
Detroit	9.20	11.70	9.17	11.63	9.10	11.60	9.00	11.58	8.87	11.68	8.75	11.61	8.60	11.58	8.64	11.58
Houston	8.90	11.10	8.80	11.03	8.80	11.00	8.73	11.02	8.72	11.09	8.62	11.04	8.61	11.09	8.60	11.10
Kansas City	6.21	7.03	6.29	7.04	6.25	7.10	6.21	7.05	6.15	7.08	6.08	7.04	6.10	7.09	6.09	7.05
Los Angeles	10.62	12.82	10.65	12.70	10.71	12.60	10.70	12.52	10.64	12.39	10.52	12.23	10.61	12.15	10.50	12.02
Milwaukee	9.55	10.68	9.52	10.70	9.42	10.64	9.27	10.60	9.20	10.60	9.03	10.59	8.95	10.60	8.91	10.59
Minneapolis	8.40	10.10	8.48	10.10	8.53	10.17	8.43	10.23	8.36	10.34	8.26	10.38	8.20	10.32	8.30	10.30
New Orleans	7.75	10.25	8.14	10.30	8.30	10.31	8.50	10.37	8.59	10.37	8.38	10.39	8.15	10.41	8.00	10.40
New York	12.88	19.67	12.89	19.80	13.01	19.80	12.94	19.80	12.98	19.78	12.86	19.56	12.82	19.40	12.80	19.22
Omaha	6.56	11.50	6.58	11.50	6.51	11.54	6.49	11.48	6.45	11.43	6.37	11.35	6.37	11.32	6.42	11.37
Philadelphia	7.05	13.90	7.03	13.93	7.08	14.00	7.05	13.98	7.03	13.97	6.99	13.90	6.99	13.77	6.97	13.57
Pittsburgh	9.35	12.40	9.29	12.30	9.25	12.28	9.20	12.24	9.17	12.28	9.10	12.17	9.04	12.27	8.96	12.26
Richmond	8.44	11.04	8.37	11.09	8.30	11.09	8.23	11.02	8.31	11.03	8.09	11.08	8.15	11.17	8.20	11.10
Saint Louis	8.09	10.61	8.14	10.59	8.10	10.64	8.13	10.70	8.10	10.70	8.05	10.68	8.02	10.64	8.08	10.62
Salt Lake City	7.75	11.03	7.78	11.01	7.85	10.98	7.80	10.98	7.74	10.92	7.70	10.90	7.73	10.88	7.69	11.00
San Francisco	9.82	13.66	9.80	13.69	9.85	13.60	9.86	13.55	9.86	13.50	9.76	13.41	9.71	13.34	9.76	13.30
Seattle	7.50	11.72	7.55	11.89	7.55	11.92	7.59	12.02	7.56	12.00	7.58	12.00	7.65	11.97	7.64	11.98
Tulsa	8.14		8.14		8.16		8.05		7.96		7.85		7.71		7.70	

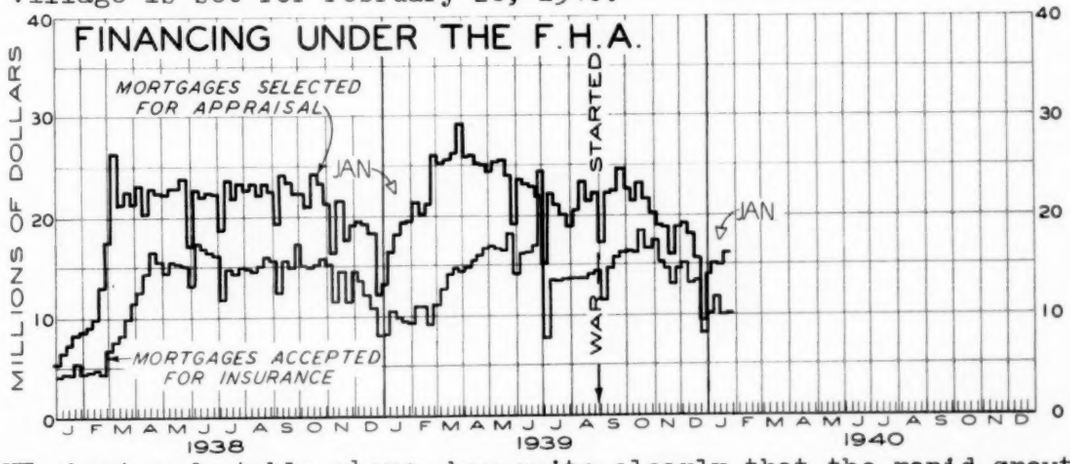
(continued from page 40)

The wide discrepancy between the value originally appraised for loan purposes and the economic value as an investment appraised herein results from considering costs alone as value in the original set-up. It is well established that for investment properties of this type, income produced from use is the sole factor in creating value, regardless of the cost of land and construction.

Experience has demonstrated that large multiple dwelling projects are hazardous ventures; gross income in periods of depression may drop to half the amount received in active periods, while net income may shrivel to nothing, or the property become a liability. There is very little cushion when 80% loans are made on multiple dwelling projects, especially when the ownership of the equity is weak.

In Manhassett Village, the initial renting period was equivalent to an extreme depression, because government representatives used bad judgment in appraising a real need for apartments of this type although there existed a surplus at that time.

The distress in the initial renting period found the equity corporation of Manhassett Village, owned by the two secretaries, in a poor financial condition, in that its sole assets consisted of values of land and of services performed, without necessary working capital. It was unable to meet mortgage requirements of principal and interest when they became due on September 16, 1939. The date for the foreclosure of Manhassett Village is set for February 26, 1940.



THE chart and table above show quite clearly that the rapid growth of the FHA stopped almost a year ago. In January, 1939, Mortgages Selected for Appraisal exceeded January, 1938, by 160%. In January, 1940, they ran under a year ago by 10%. Mortgages Accepted for Insurance in January, 1939, exceeded a year ago by 118%; in January, 1940, by 10%.

Mortgages Selected for Appraisal Compared with Year Ago

Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
+160%	+102%	+29%	+12%	+14%	+4%	-11%	-8%	-8%	+2%	-4%	-13%	-10%p

Mortgages Accepted for Insurance Compared with Year Ago

+118%	+119%	+58%	+3%	+19%	+11%	-13%	-6%	-9%	+13%	+2%	+5%	+10%p